

March 3, 2004

IN RE: DOCKET NO. 2000-366-A – Chem-Nuclear Systems, LLC

**COPY OF SURREBUTTAL TESTIMONY OF WILLIAM P. BLUME
FILED ON BEHALF OF THE COMMISSION STAFF HAS BEEN
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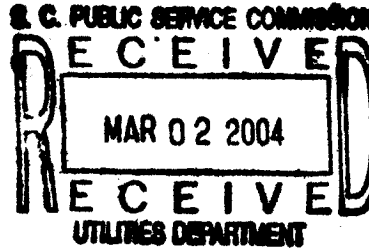
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Bruce F. Duke
Executive Director
Phone: (803) 896-5100
Fax: (803) 896-5246

The Public Service Commission
State of South Carolina



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Legal Department
F. David Butler, General Counsel
Phone: (803) 896-5113
Fax: (803) 896-5231

March 1, 2004

Honorable Bruce F. Duke
Executive Director
South Carolina Public Service Commission
Post Office Drawer 11649
Columbia, South Carolina 29211

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RE: Docket No. 2000-366-A –Chem-Nuclear Systems, LLC

Dear Mr. Duke:

Pursuant to R.103-869 of the Commission's Rules and Regulations, I am herein enclosing the original and twenty-five (25) copies of the surrebuttal testimony intended to be offered by the one (1) witness for the Commission Staff in the above referenced proceeding. By copy of this letter, I am serving copies of the direct testimony on the parties of record in this proceeding.

If I may be of further assistance, please do not hesitate to contact me.

Very truly yours,

F. David Butler
General Counsel

FDB:dd
Enclosures:
cc: All Parties of Record

**BEFORE
THE PUBLIC SERVICE COMMISSION
OF
SOUTH CAROLINA**

DOCKET NO. 2000-366-A

IN THE MATTER OF:

Application of Chem-Nuclear Systems, LLC) for Identification of Allowable Costs)	CERTIFICATE OF SERVICE (U.S. Postal Service-First Class Mail)
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I, Dale E. Davis, do hereby certify that I have on the date indicated below served the following named individual(s) with one (1) copy of the pleading(s) listed below by U.S. First Class Mail with sufficient postage attached and return address clearly marked.

PARTIES SERVED:

Mr. Regan E. Voit, President
Chem-Nuclear Systems, LLC
140 Stoneridge Drive
Columbia, SC 29210

Mr. Charles W. Condon
Attorney General
State of South Carolina
Post Office Box 11549
Columbia, SC 29211

Mr. Benjamin A. Johnson, Chairman
Atlantic Compact Commission
Post Office Drawer 12070
Rock Hill, SC 29731

Mr. Henry Porter, Assistant Direct
Division of Waste Management
DHEC
2600 Bull Street
Columbia, SC 29201

Mr. Bill Newberry, Manager
Radioactive Waste Disposal Program
State Energy Office
1201 Main Street, Suite 820
Columbia, SC 29201

Samuel L. Finklea, Esquire
Office of General Counsel
SC Department of Health and
Environmental Control
2600 Bull Street
Columbia, SC 29201

Catherine D. Taylor, Esquire
SCANA Corp.
Legal Dept. MC130
1426 Main Street
Columbia, SC 29218

David K. Avant
SC Budget & Control Board
Post Office Box 11608
Columbia, SC 29211
davant@ogc.state.sc.us

Frank R. Ellerbe, III, Esquire
Robinson, McFadden & Moore, PC
Post Office Box 944
Columbia, SC 29202

Elliott F. Elam, Jr., Esquire
SC Department of Consumer Affairs
Post Office Box 5757
Columbia, SC 29250-5757
elam@dca.state.sc.us

Robert E. Merritt
Office of the Governor
Post Office Box 12267
Columbia, SC 29211
bmerritt@gov.sc.gov

William F. Austin, Esquire
Austin, Lewis & Rogers, P.A.
P. O. Box 11716
Columbia, SC 29211
rddecarlis@alrlaw.com
wfaustin@alrlaw.com

Robert T. Bockman, Esquire
McNair Law Firm, PA
P. O. Box 11390
Columbia, SC 29211

PLEADING(S): Surrebuttal Testimony – William P. Blume

Legal Department
Public Service Commission of
South Carolina

By: 

Dale E. Davis

Columbia, South Carolina
March 1, 2004

**BEFORE
THE PUBLIC SERVICE COMMISSION
OF
SOUTH CAROLINA**

DOCKET NO. 2000-366-A

IN THE MATTER OF:

Application of Chem-Nuclear Systems, LLC) for Identification of Allowable Costs)	CERTIFICATE OF SERVICE (VIA E-MAIL)
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I, Dale E. Davis, do hereby certify that I have on the date indicated below served the following named individual(s) with one (1) copy of the pleading(s) listed below via email.

PARTIES SERVED:

David K. Avant
SC Budget & Control Board
Post Office Box 11608
Columbia, SC 29211
davant@ogc.state.sc.us

Frank R. Ellerbe, III, Esquire
Robinson, McFadden & Moore, PC
Post Office Box 944
Columbia, SC 29202
fellerbe@robinsonlaw.com

Samuel L. Finklea, Esquire
Office of General Counsel
SC Department of Health and
Environmental Control
2600 Bull Street
Columbia, SC 29201
finkles@dhec.sc.gov

Elliott F. Elam, Jr., Esquire
SC Department of Consumer Affairs
Post Office Box 5757
Columbia, SC 29250-5757
elam@dca.state.sc.us

William F. Austin, Esquire
Austin, Lewis & Rogers, P.A.
P. O. Box 11716
Columbia, SC 29211
rddecarris@alrlaw.com
wfaustin@alrlaw.com

Robert E. Merritt
Office of the Governor
P. O. Box 12267
Columbia, SC 29211
bmerritt@gov.sc.gov

Robert T. Bockman, Esquire
McNair Law Firm, PA
P. O. Box 11390
Columbia, SC 29211
bbockman@mcnair.net

Catherine D. Taylor, Esquire
SCANA Corp.
Legal Dept. MC130
1426 Main Street
Columbia, SC 29218
cdtaylor@scana.com

PLEADING(S): Surrebuttal Testimony – William P. Blume

Legal Department
Public Service Commission of
South Carolina

By: 

Dale E. Davis

Columbia, South Carolina
March 1, 2004

***Application of
Chem-Nuclear Systems, LLC
A Division of GTS Duratek, Inc.
For
Adjustment in the Level of Allowable
Cost for June 30, 2003 and
Identification of Allowable Cost for June
30, 2004***

Docket No. 2000-366-A

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OK [Signature]
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***Surrebuttal Testimony of
William P. Blume
Audit Department***

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

1 **Q. Please state your name, business address and occupation.**

2 A. My name is William P. Blume. My business address is 101 Executive Center Drive,
3 Columbia, South Carolina. I am employed by the Public Service Commission of
4 South Carolina as an Audit Department Manager.

5 **Q. Mr. Blume, did you file direct testimony in this proceeding?**

6 A. Yes I did.

7 **Q. What is the purpose of your surrebuttal testimony in the proceeding?**

8 A. The purpose of my surrebuttal testimony is to discuss certain issues addressed by Mr.
9 Regan A. Voit's rebuttal testimony as it relates to issues I addressed in my direct
10 testimony in this proceeding.

11 **Q. What are those issues addressed by Mr. Voit?**

12 A. I would like to address the issue of Staff's use of FTE's in the allowance of labor
13 cost for the period ending June 30, 2003, Staff's adjustment for cost associated with
14 the skid used to transport and bury the Maine Yankee Reactor Pressure Vessel, the
15 adjustment proposed by the Staff to hold in abeyance the \$123,698 that is associated
16 with the remaining cost of the OEP Plan that resulted from a study performed by
17 Project Time & Cost, Inc., the adjusted method used by the Staff as related to the
18 Collaborative Agreement to determine fixed costs for fiscal year ending June 30,
19 2004, and Mr. Voit's comments as related to the use of FTE's to reduce costs for the
20 future years.

21 **Q. Would you please begin by addressing the use of FTE's in the allowance of**
22 **labor for the fiscal year ending June 30, 2003 and June 30, 2004?**

1 A. Certainly. Mr. Voit has offered several points concerning my use of the FTE levels to
2 determine allowed cost for reimbursement for 2003. He has seemingly attempted to
3 relate my own testimony on pages 9, 10 & 12 as an argument against such a position.

4 I would agree that the Company has made use of its own employee base to perform a
5 number of projects considered to be irregular in nature. That is exactly what should
6 be done if the cubic feet of waste received is not being shipped at a level that would
7 support the current company employee level. However, none of this has to do with
8 the use of employees for burying waste at the site. The main reason for the current
9 staff level at the disposal company is to bury waste and to do so safely and to allow
10 the Company to be compliant with all regulations.

11 The FTE levels presented in the OEP Plan were proposals made by Project Time &
12 Cost based on their own observations at the site. It would seem reasonable to the
13 Staff that one of the reasons the Commission ordered such a study was related to
14 manpower needs at the site as levels of waste decreased. It would appear that the
15 Plan was written with this in mind. On page 28 of 31, the Plan speaks directly to FTE
16 levels at various cubic feet of waste by fiscal year ending. The maximum level of
17 FTE's for fiscal year ending 2004 is 56 FTE's. The Staff is proposing to adjust labor
18 using this level of FTE's.

19 I also am of the opinion that the OEP Plan adds more evidence to the reduction of
20 FTE's and how the Company may possibly offset the financial impact to Chem
21 Nuclear.

1 The Staff chose to adjust Fixed Labor for the recognition of this reduction, but could
2 have just as well used variable labor to do so. However, I would have to point out to
3 the Commission that if the reduction was used to lower variable cost, it would seem
4 necessary to only allow for the reimbursement of the approved variable rates and not
5 actual cost. Failure to do so would eliminate any reason to even be concerned with
6 levels of employees charging time to disposal operations.

7 If the FTE reduction were charged to variable cost, it would lower the base used in
8 calculating variable rates by \$196,692. This amount consists of labor totaling
9 \$138,613 and associated fringes of \$58,079.

10 It is my opinion that in order to correctly apply the OEP Plan along with the
11 collaborative agreement, the Company must take into consideration the effect of
12 reductions in FTE's over the remaining fiscal years and find other methods to make
13 use of the employees at Chem Nuclear. One method recommended by the Plan is
14 detailed on page 29 of 31 of the OEP Plan. In Recommendation #2, Project Time &
15 Cost refers to using Disposal Employees to perform Decommissioning functions.
16 These types of costs would be reimbursed at a lesser operating margin by the State,
17 but would not result in the State reimbursing the Company for excessive FTE levels
18 since these employees would be performing Decommissioning functions at the site.

19 It is my opinion that a proposed adjustment to reduce labor for June 2003 and 2004
20 based on FTE levels is nothing more than utilizing a document that this Commission
21 ordered, and its use would comply with one of the reasons the OEP Plan was
22 originally ordered.

1 **Q. Would you please address the issue of the Maine Yankee Reactor Pressure**
2 **Vessel skid?**

3 A. Mr. Voit has expressed that the Staff has come to a conclusion about the allowed cost
4 for this skid using an oversimplified approach. I believe that this same argument
5 could be used against the Company's use of a 50/50 approach. There is nothing I
6 know of that would back the Company's approach other than the skid was used for
7 two purposes, transportation and burial.

8 With that in mind, I used dollar amounts associated with transportation and disposal
9 revenue to determine my allocation. These costs were supplied to me by the
10 Company. In my opinion, it makes more sense to use dollars associated with
11 transportation and disposal revenue to determine the cost split. That split in cost was
12 not 50/50.

13 **Q. Would you now address the \$123,698 cost figure associated with the remaining**
14 **50% of cost for the OEP Plan?**

15 A. Mr. Voit's statement on page 5 of his rebuttal testimony suggests that the remaining
16 \$123,698 in cost should be identified as reimbursable since all the parties have relied
17 upon the OEP Plan. I assume he is referring to the collaborative agreement when he
18 refers to this, however, I must point out that the Plan has never been presented in
19 evidence before the Commission, even though at least one Commissioner was of the
20 opinion it should have been so presented in the last hearing.

21 I do not object to the payment of such a cost. However, it is my opinion that before
22 the Staff can recommend reimbursement of any of this cost, someone for the

1 Company is going to have to testify concerning how the plan was developed in order
2 to reach the conclusions that resulted. This will occur when Mr. Childs appears at
3 this hearing.

4 If for some reason, after hearing Mr. Childs' testimony, the Commission is of the
5 opinion that the Plan is faulty, then certainly the Commission should have the
6 authority to disallow any cost associated with the performance and preparation of it,
7 even going back to the previous year and ordering the Company to reimburse the
8 State for the previously approved \$123,698 as well as the remaining 50% of the cost.

9 However, again, if the Commission approves the Plan, I do not object to payment of
10 the remaining amount.

11 **Q. Would you now testify concerning your use of adjustments to the fixed and**
12 **variable cost that were a part of the collaborative agreement?**

13 A. In my opinion, the Staff had the ability to propose adjustments to the agreement if
14 they were deemed necessary. I made several changes, one of which had to do with
15 the FTE levels. I feel I have already said enough about that issue.

16 I have also proposed to adjust the agreement using the agreed upon 3.5% inflation
17 increase, which I did and I also proposed a correction for the fringe rate. Our
18 examination had caused the Staff to be of the opinion that an increase was merited
19 for the fringe rates. In the OEP Plan, fringes were calculated using a 33.4% rate. The
20 Staff made the decision that this rate was too low and proposed to increase fringes
21 using the 41.9% rate instead.

1 I must point out that Mr. Voit believes Staff failed to increase Materials for a
2 proposed 4% inflation rate. He is in error on this point, since the Staff increased
3 Materials from \$60,000 as shown in the agreement by adding an additional \$2,400 or
4 4% more cost to this account.

5 **Q. Are you of the opinion that fixed costs mean that such costs should remain at a**
6 **fixed amount plus increases for inflation only?**

7 A. No. Fixed costs are not dollar amounts that should remain fixed forever. A more
8 proper definition of these types of costs would be costs that will occur no matter what
9 takes place at the company's disposal site. The dollar amounts may change but the
10 reason for the costs existence does not. When changes take place, they must be
11 recognized or the company could either over-compensate or be penalized by being
12 under-compensated. It is unreasonable to consider that the dollar amount of fixed
13 costs would remain "frozen" in time.

14 **Q. Were you of this opinion during the collaborative agreement meetings?**

15 A. Yes and I voiced my opinion several times concerning this particular matter during
16 these meetings. It is just not logical that fixed costs will stay at a base level of dollars
17 over an extended time period. Failure to recognize this would, in my opinion, be an
18 error.

19 **Q. You stated that even the Company could be hurt by the failure to recognize**
20 **changes. Did you make any proposed adjustment that points this out to the**
21 **Commission?**

1 A. I did. Mr. Voit testified to the recognition of a 7% increase in fringe costs. If the Staff
2 had only agreed with that increase level, we could not have corrected the company's
3 fringe rate to the more appropriate level of 41.9%. Failure to do this would have
4 resulted in a lesser amount of allowed fringes for purposes of reimbursement.

5 To me, this is a perfect example of how the idea of a fixed amount of cost can be
6 changed. The Staff found the fringe rate used in the agreement to be far too low and
7 have proposed an adjustment to correct it. If I had followed Chem Nuclear's method,
8 I would have failed to make this full increase, thereby penalizing the Company.

9 I also must point out that the opposite could occur and the Staff would have to
10 propose an adjustment that would cause a reduction to the company.

11 **Q. Do you have a final comment concerning Mr. Voit's statement on page 7 of his**
12 **rebuttal testimony where he refers to the Staff ignoring the parties agreement**
13 **that allows for a safe, compliant operation of the site and that such cost, fixed,**
14 **should not be changed from year to year?**

15 A. Again, I must go back to the OEP Plan to answer this question. The Plan was
16 performed to answer questions such as proper staffing of the company in order for
17 the company to perform the job of burying low level nuclear waste in a safe manner.
18 Unless the Company is now of the opinion that the OEP Plan has failed to provide
19 this type of information, I would think that the Commission could be of the opinion
20 that FTE levels were suggested by Project Time & Cost with the idea of a safe
21 environment for the disposal of waste at the site and that the recommended FTE
22 levels would allow for both safe and compliant operations of the site. As far as I

1 know, the Company has never stated any lack of confidence in the OEP Plan. With
2 that in mind, I would have to assume Mr. Voit agrees with its content fully. If he
3 does not, then the Commission should review its earlier decision as to the true value
4 of the Plan and may be of the opinion to disallow full recovery of the cost of the
5 Plan.

6 It is my opinion that the FTE levels that are a part of the Plan should be considered
7 when setting future labor cost. If this is ignored by the Commission Staff, then over-
8 staffing can result and the costs reimbursed could be excessive in their amount.

9 **Q. Does this conclude your Surrebuttal Testimony?**

10 **A.** Yes it does.
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